

### **III. BUILDING ON OUR ECONOMIC PROSPERITY**



# 1. SUSTAINING GROWTH

*Six years ago, our economy lagged behind the rest of the world, so we changed course, with a new strategy for economic growth founded on fiscal discipline and lower interest rates. It has worked. It has helped to produce an American economic renaissance with low inflation, low unemployment, low welfare rolls, rising wages, the highest rate of home ownership in history, the first balanced budget since Neil Armstrong walked on the Moon, and the smallest Federal Government since John Glenn [first] orbited the Earth.*

President Clinton  
October 1998

President Clinton took office in 1993 committed to a policy of fiscal discipline and economic expansion. By nearly every measure, his policy has been a remarkable success. But there is perhaps no better measure of that success than the impressive turnaround in the Federal budget deficit. At the start of his term, the President inherited a Federal budget deficit of \$290 billion; six years later, with the President's strategy of fiscal discipline while investing in people, the budget produced a surplus of nearly \$70 billion. This accomplishment resulted in the first surplus in a generation, and the largest deficit reduction since the years immediately after World War II, when massive war-time deficits were wiped out by vast contractions in defense spending and strong peace-time growth.

Last year, the Federal Government began to retire some of the Federal debt held by the public, reducing the accumulated total of deficits and the ongoing interest cost of financing them. Again, this is a milestone; not since 1969 did a year end with less debt held by the public than it began. The last budget of this century will preserve these historic achievements.

The private sector of the economy has been the driving force behind this economic progress; but the President's commitment to fiscal restraint has helped create an environ-

ment where the private sector of the economy can flourish. During the President's first year in office, financial markets responded to the enactment of his deficit reduction plan by reducing long-term interest rates. Lower interest rates prompted more business investment, leading to faster economic growth, more job creation, and lower unemployment. Interest rates remained near or below the lowest levels of the preceding two decades. The economy continued to thrive, in part because moderate inflation accompanied rapid growth. Indeed, price inflation has dropped during President Clinton's term of office. The decline in the inflation rate, along with the falling unemployment rate, have produced the lowest "misery index" since the 1960s. (This index combines the unemployment and inflation rates.)

The Nation's economic growth continues its record-setting pace. At last year's close, current data indicated that the expansion had stretched to 93 months, breaking the record set in the 1980s for peace-time growth. Like most private-sector projections, the Administration's forecast anticipates that growth will continue, which would put this economy on track early in 2000 to surpass the two-century record for economic expansions set in the 1960s under Presidents Kennedy, Johnson, and Nixon.

### **Economic Growth and Fiscal Discipline Benefit the American People**

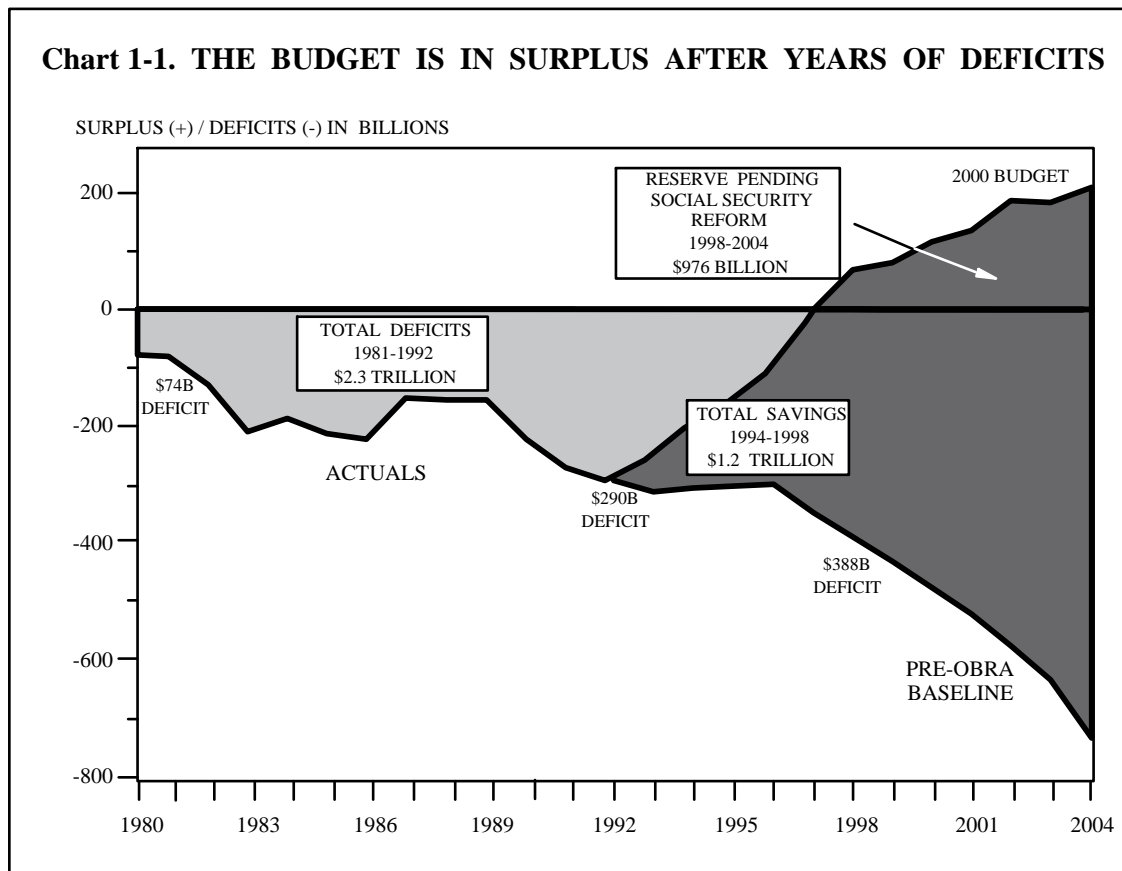
From the very start, President Clinton's economic program has been focused on changes that will benefit the American people—their well-being, their economic security, and their prospects for the future. The success of this strategy is clear:

- The economy has created more than 17 million jobs since 1993, nearly all of them in the private sector. Most of them are in the high growth, higher-wage sectors of the economy.
- The unemployment rate is at its lowest in 29 years; the unemployment rates for African Americans and Hispanics are the lowest in the more than quarter-century history of those statistics.
- Work has begun to pay more, reversing a two-decade trend of declining real wages. Instead, inflation-adjusted wages have grown sharply, boosting household incomes throughout the economy. Americans at the lower end of the income scale, those in the poorest 20 percent of households, have seen their incomes (as measured in inflation-adjusted terms) rise in the past four years, after nearly two decades of stagnation and decline.
- Four million people have left the welfare rolls in the past six years. Welfare recipients account for the lowest percentage of the U.S. population in 29 years, as more Americans having learned to be self-reliant and productive have entered the work force. A strong economy and plentiful job opportunities have helped make this transformation possible.
- The number of poor people in America has declined by nearly four million from 1993 to 1997. There are 1.6 million fewer poor children in America. The poverty rate has declined sharply as well—from 15.1 percent to 13.3 percent. And crime rates are at the lowest level in 25 years; scholars have argued that a strong economy provides lawful opportunities that are superior to crime, and, therefore, reduces the incidence of crime.
- A record number of Americans now own their own homes, due in large measure to conditions brought about by lower interest rates. More than seven million more families have bought homes since 1992. And 18 million homeowners have taken advantage of the low interest rates to refinance their homes, enjoying a virtual tax cut that saves them hundreds of dollars on their monthly mortgage payments.

### **Conservative Forecasts: Continued Growth**

Continuing its practice of using conservative economic assumptions, the Administration projects that growth will moderate somewhat in 1999, but it will continue at an average pace of two percent per year for the next three years. Last year's unemployment, the lowest in three decades, is likely to rise somewhat, and inflation may increase slightly as well. Still, the Administration believes that the economy can continue to outperform this conservative forecast, as it has for the past six years, if policy remains sound. The expansion is expected to continue, which should sustain many of the economic gains of the last few years. Ultimately, the Administration expects the economy to return to higher but sustainable growth early in the next century, accompanied by low levels of inflation and unemployment.

The longer-term economic and budget outlook is also more favorable than it has been for many years. With prudent fiscal policy, the budget could remain in surplus for many decades. Still, there will be challenges that threaten budgetary stability in the 21st Century. In less than 10 years, the large generation of people born between 1946 and 1964—the “baby-boomers”—will begin to become eligible for retirement with Social Security benefits. A confluence of additional demographic factors will compound the retirement of the baby-boom generation to put intense pressure on the Federal budget through Social Security and the Federal health programs—Medicare and Medicaid. These demographic changes only increase the uncertainty in all long-range economic and budgetary forecasts. Reforms will be needed to preserve the affected programs; and budgetary restraint will be needed to preserve the fiscal soundness that this Administration



has achieved in the past six years. These issues are what prompted the President to declare last year that the surplus must be preserved until the long-term problems of Social Security are resolved.

### Budgetary Performance

Twelve years of spiraling budget deficits before President Clinton assumed office increased the public debt by \$2.3 trillion. In dollar terms, this was the largest buildup of Federal debt in the Nation's history. Moreover, if President Clinton had not acted, the buildup in debt threatened to reach nearly \$7 trillion, or nearly 70 percent of GDP, by 2002. The President set out first and foremost to cut the massive deficit. To that end, the President proposed, and Congress enacted, the Omnibus Budget Reconciliation Act (OBRA) of August 1993, as a solid first step toward fiscal responsibility. At the time, the Administration expected OBRA to reduce the deficit significantly; but budget improvement has far exceeded expectations. Since OBRA was passed, total

deficit reduction has been more than twice what was originally projected.

To finish the job, the President worked with Congress to enact the historic and bipartisan Balanced Budget Act (BBA) in mid-1997, with the goal of reaching balance in 2002. The policy of fiscal discipline produced significant results much sooner than expected, as the budget came into balance and then surplus in 1998, four years ahead of projections. The cumulative results of OBRA and the BBA are truly monumental. To appreciate their scope, one need only to recall expectations at the time. The latest projections show total deficit reduction from 1993 to 2003 reaching \$4.4 trillion—a sum that exceeds the total amount borrowed from the public by the Government from 1981 to 1992.

**The Administration's Deficit Reduction Far Exceeded Projections:** Upon OBRA's enactment, the Administration projected that it would reduce the accumulated deficits from 1994 to 1998 by \$505 billion. Clearly, it has

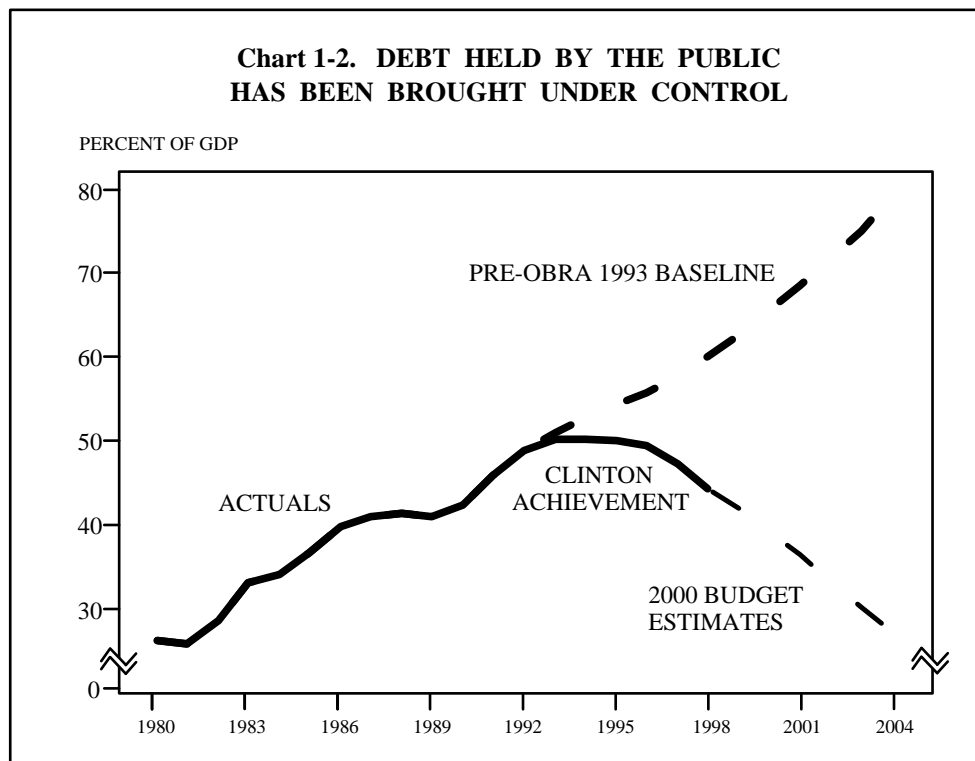
exceeded that goal. In fact, last year's surplus combined with the reduced deficits of previous years account for deficit reduction of \$1.2 trillion since 1993—more than twice the projected savings when OBRA was enacted (see Chart 1-1).

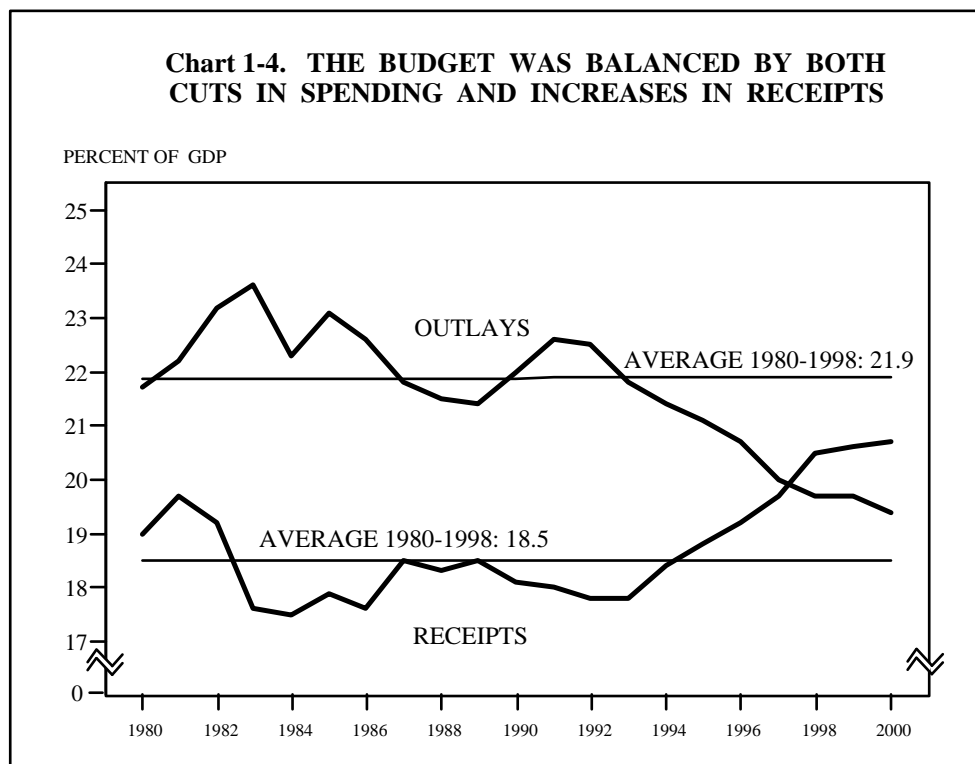
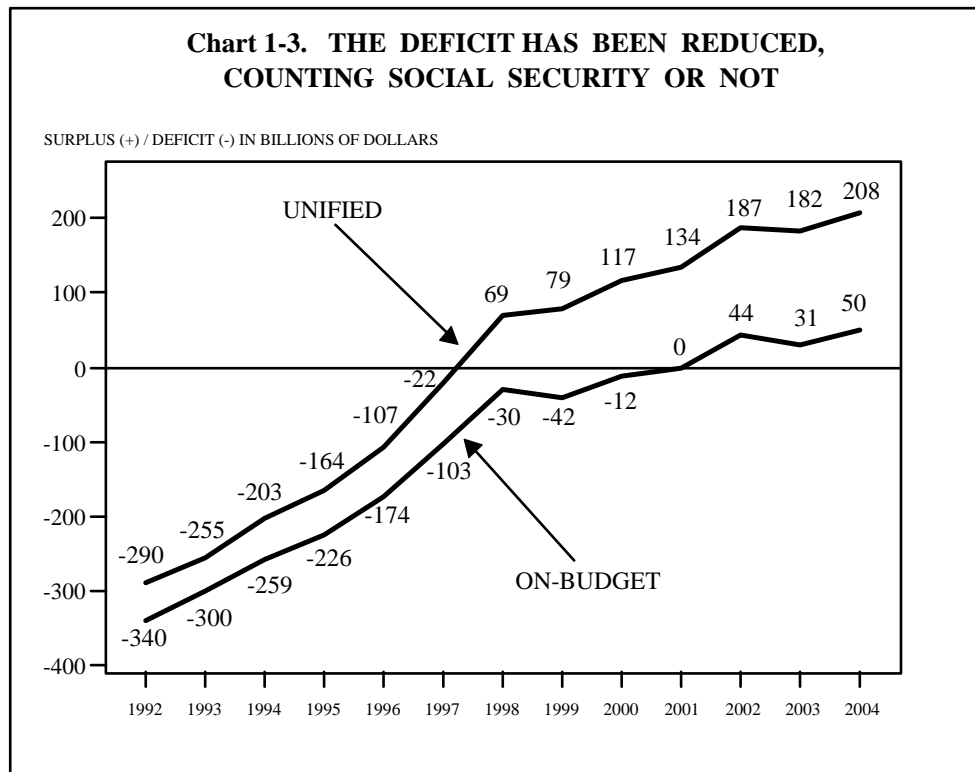
***The Administration has begun to Reverse the Debt Buildup of the 1980s.*** The Government must finance any deficit it runs by borrowing from the public, thereby accumulating its publicly held debt. As a share of Gross Domestic Product (GDP), Federal debt held by the public reached a post-World War II peak of 109 percent in 1946. Because the economy grew faster than the debt for the next few decades, the debt gradually fell to about 25 percent of GDP in the 1970s. But the exploding deficits of the 1980s sent it back up. In dollar terms, publicly held Federal debt quadrupled, rising from \$710 billion at the end of 1980 to \$3.0 trillion by the end of 1992. Debt peaked at 50 percent of GDP in 1993, but since then, thanks to the Administration's policy of deficit reduction, the ratio of publicly held debt to GDP has steadily declined. The surplus of 1998 will cut into the dollar amount of the debt held by the public, driving down the ratio of debt to GDP even faster.

Had this Administration done nothing, the debt was projected by both OMB and the Congressional Budget Office (CBO) to approach \$7 trillion, or 75 percent of GDP, by 2002. Instead, in 1998, the ratio of publicly held debt to GDP fell about 16 percentage points below projections made before the Administration began pursuing its concerted policy of deficit reduction (see Chart 1-2).

***The On-Budget Deficit has Fallen:*** The unified budget, the measure most commonly used when tallying deficits and surpluses, includes all Government receipts and spending, including Social Security's contributions from workers and their employers and Social Security benefits paid to retirees. Because contributions in recent years have been greater than the Social Security benefits paid out, the trust fund has accumulated a surplus. Under the accounting method of unified budgeting, that surplus is counted and helps to bring down the deficit.

Still, the on-budget (non-Social Security trust fund budget) balance has also followed the remarkable deficit reduction trends of the past six years (see Chart 1-3). The





deficit has fallen from \$340.5 billion (a post-World War II record) or 5.5 percent of GDP in 1992, to \$30 billion in 1998. Thus, although the Social Security surplus helps reduce the overall unified budget deficit, the on-budget deficit has fallen by \$310 billion since 1992, and this improvement accounts for 86 percent of the reduction in the unified deficit.

***The Government's Claim on the Economy has been Reduced:*** In the previous two Administrations, Federal spending was higher as a share of the economy than at any point since the end of World War II, reaching 22.5 percent of GDP in 1992. The defense buildup in the early part of the 1980s, higher Federal interest payments because of increased borrowing from the public, and large increases in the cost of Federal health programs outpaced any efforts to reduce spending during the two previous Administrations. However, this trend has been reversed under President Clinton, who, at the same time, has been able to provide key investments in education, the environment, and more. During the last five years, the ratio of Federal spending to GDP has steadily declined, and in 1998 it was only 19.7 percent, a smaller percentage of the economy than at any time in almost a quarter century (see Chart 1-4).

***Economic Growth has Spurred Higher-Than-Expected Federal Receipts:*** A healthy economy and a booming stock market led last year to a surge of Federal receipts. In the past five years, receipts have been higher and spending lower than projected, leading to more deficit reduction than projected. Last year's unexpectedly strong growth in receipts helped bring the budget into surplus well before expected.

***The United States is among World Leaders in Budgetary Performance:*** In the 1980s, the United States drew criticism for its large budget deficits. Other countries blamed U.S. deficits for driving up interest rates and threatening global economic growth. This Administration, now embarked on an era of surplus, can point proudly to its fiscal policy as a model. The United States is a leader among the G-7 nations; only Canada also runs a surplus (see Chart 1-5). The reason for this outstanding U.S. performance is not high taxes,

but low public spending. The share of GDP devoted to taxes is lower in the United States than in any other leading country. And while the United States supports a much larger defense establishment than the other G-7 countries, it is nonetheless able to hold its public spending down to a low share of GDP.

### **Economic Performance**

The Administration's strategy of reducing the deficit while investing in people unleashed the power of the private sector. Shrinking deficits, and now a balanced budget, have freed capital for private investment, encouraging businesses to borrow for improvements and expansion, and encouraging Americans to refinance their homes or buy homes for the first time. Fiscal responsibility has promoted business and investor confidence and enabled the Federal Reserve to maintain low interest rates that, in turn, have helped maintain and strengthen the economic expansion. The surge in business investment shows that these policies are working, and with the budget now balanced and producing a surplus, prospects for continued economic progress are excellent.

***The Expansion Sets a New Record:*** In December of 1998, current data indicate that the economic expansion entered its 93rd month, setting a new record as the longest in peacetime. And next year, with most experts and the Administration projecting continued growth, the economy will set an all-time record as the longest expansion ever measured.

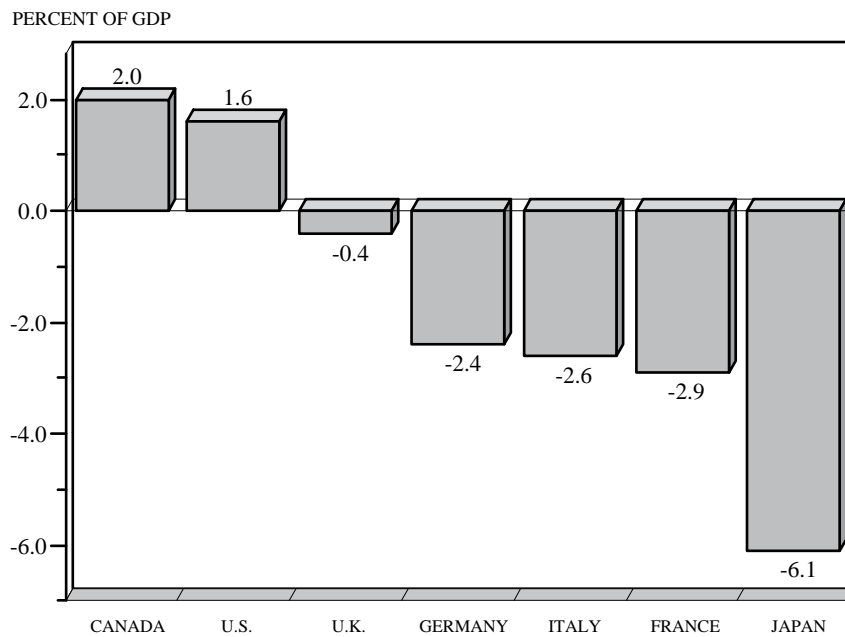
***The Administration's Fiscal Policy has Resulted in a Sound Expansion:*** Unsustainable Federal deficits, in part, stimulated both of the longer post-war expansions—the first in the 1960s, the second in the 1980s. The economy expanded because the Government expanded, dragging the private sector along.

In these earlier expansions, the fiscal stimulus came at different times. In the 1960s, the deficit was quite restrained early in the decade, but grew sharply after 1965. In the early 1980s, the "structural deficit"<sup>1</sup>

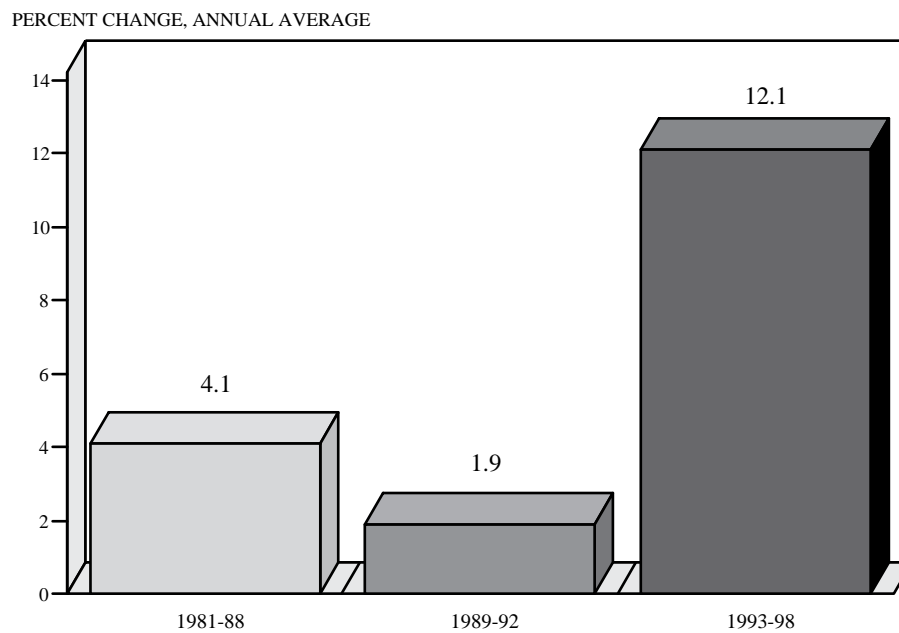
<sup>1</sup> The structural deficit is the deficit that remains after accounting for cyclical changes in the economy as well as purely temporary factors, such as the annual costs and receipts from resolving the thrift crisis.



**Chart 1-5. ONLY THE UNITED STATES AND CANADA  
HAD GENERAL GOVERNMENT SURPLUSES IN 1998**



**Chart 1-6. EQUIPMENT SPENDING HAS LED THIS EXPANSION**



soared to almost five percent of GDP. That large deficit helped pull the economy out of the deep recession of 1981–1982, but the Government's subsequent failure to curb it held up interest rates, led to the financial problems that marked the end of the decade, and likely helped to bring on the recession of 1990–1991.

In contrast, during the current expansion, the reduction and subsequent elimination of the deficit has permitted private investment to propel the economy forward.

***This Expansion has been Led by a Strong Private Sector:*** Since the start of 1993, when President Clinton took office, the economy has grown at an average rate of 3.3 percent per year—faster than under the two previous Administrations. Furthermore, recent growth has been driven by the increased demand for private goods and services. At the same time, the Federal Government's direct claim on GDP (mainly defense and other discretionary spending, excluding transfer payments) has actually shrunk over the past six years at an average rate of 2.2 percent per year. Meanwhile, almost 93 percent of the 17.7 million jobs created during this Administration have been in the private sector (and Federal Government employment has shrunk by 365,000; see Section IV, "Improving Performance Through Better Management").

***Business Investment has Led this Expansion:*** Since the beginning of 1993, the share of the Nation's GDP dedicated to real fixed investment in business equipment has reached record levels. Equipment investment has grown at an annual rate of 12.1 percent, more than three times the annual rate of growth from 1980 through 1992 (see Chart 1–6).

Investment growth is important for two reasons:

- Investment adds to the economy's productive capacity, and a larger economy generates more income leading to higher average living standards. The recent burst of investment has helped lay the economic foundation for continued growth in the next century.
- New equipment contains advanced technology, making workers who use the equipment more productive. Higher pro-

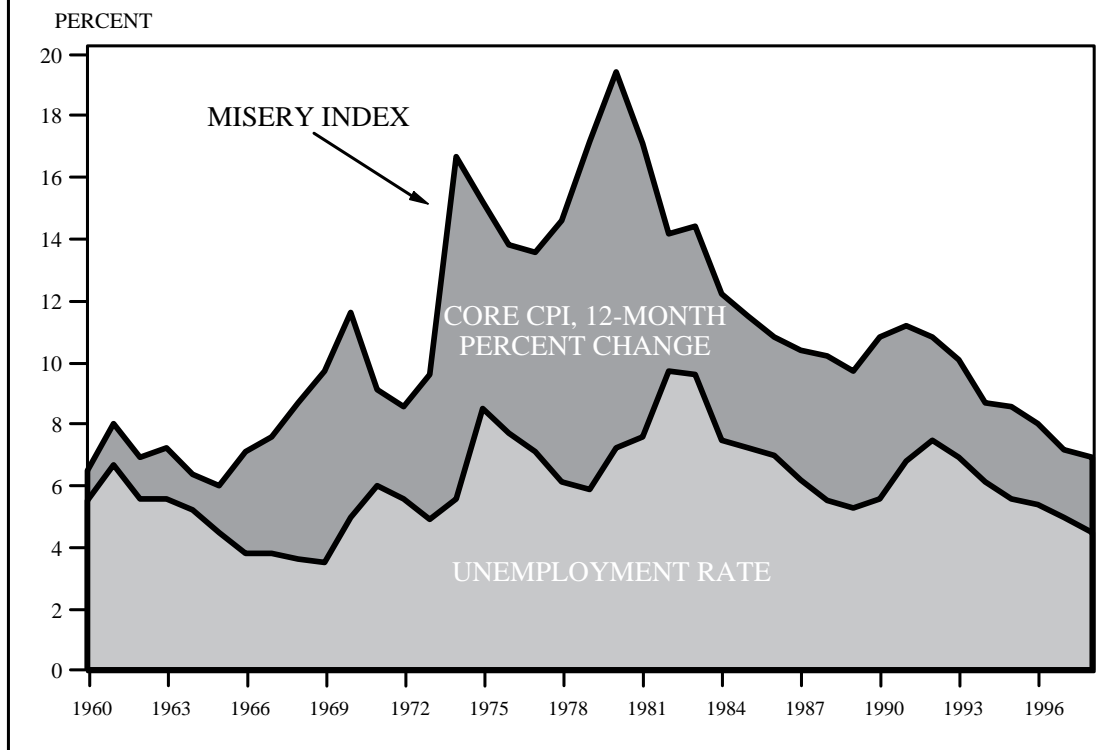
ductivity permits larger wage increases without threatening higher inflation.

***The Misery Index is at the Lowest Levels in 30 Years:*** In the current expansion, both unemployment and inflation have continued to fall even with the expansion in its eighth year. Last year, unemployment fell to its lowest annual average since 1969, while inflation at 2.4 percent (as measured by the core CPI, excluding the volatile food and energy prices), was virtually unchanged from its 1997 low of 2.2 percent. In fact, core inflation has not been lower since 1966. And the misery index—the sum of the inflation rate and the unemployment rate—is lower than at any time since the 1960s (see Chart 1–7).

***Unemployment Rates and Interest Rates are Both Low:*** Never in the recent past has the combination of interest rates and unemployment been as low as in the past six years. Generally, since President Clinton took office, interest rates have remained near or below the lowest levels of the 1970s and 1980s, with the 10-year Treasury bond rate dropping in October of last year to its lowest level since 1965. It is noteworthy that interest rates have maintained their low level at a time of sustained economic growth and low unemployment, when interest rates might be expected to rise. This dampened unemployment rate signals a robust level of demand in the economy. Relatively low interest rates, along with robust demand, mark the success of the Administration's fiscal policy in the following ways: it reduces the drain on savings, thereby freeing resources for investment, while creating an environment where a prudent monetary policy holds down inflation.

### **The Near-Term Economic Outlook**

The Administration expects the economy to continue to grow in 1999, while inflation will remain low. However, growth is expected to moderate from its recent pace of 3.7 percent per year for the past three years, which is much faster than the economy has been able to sustain in recent decades without higher inflation. The Administration projects a diminished but healthy rate of growth, accompanied by low unemployment and inflation.

**Chart 1-7. THE MISERY INDEX IS AT ITS LOWEST SINCE THE 1960s**

### **Domestic Economic Strength at a Time of International Turmoil**

Though the American economy remains strong, last year there were some troubling developments in the world economy. The dislocations in financial markets that began to spread in Thailand, Korea, Indonesia, and elsewhere in Asia in 1997 developed into a severe economic downturn; and Japan, which had not fully recovered from the collapse of the bubble economy in the early 1990s, has fallen back into recession. The effects spread to Russia and threatened Latin America; the decision of the Russian Government in August to delay repayment of some of its debt further roiled world financial markets. Concern spread to the United States last summer, but a combination of decisive action by the Federal Reserve and new resources provided to the International Monetary Fund (IMF) helped contain the spread of the crisis. Conditions have not returned to their status prior to the August upheaval, and risks remain, but in the United States, most compa-

nies in need of credit have been able to return to the capital markets, and stocks have recovered their lost value.

Despite the disruptions in financial markets, the U.S. economy slowed very little following the economic weakness in Asia and Russia in 1998. Growth through the first three quarters of the year held up extremely well, at a 3.7 percent annual rate—which exceeds the mainstream estimate of the economy's potential growth rate of about 2.4 percent. Despite a declining trade balance, strong consumer and investment demand combined to keep the economy healthy.

Though the economy has outperformed the mainstream forecast for the past six years, the Administration continues to use mainstream projections, in which the growth of domestic demand moderates in 1999. Consumer demand has been outpacing income growth, and cutting into personal saving. With the saving rate now near zero, it is likely that consumption spending will grow more slowly in the future. Business profits,

which were rising strongly through 1997, have fallen over the past four quarters. Although profits are expected to stabilize, the abnormally rapid growth is not projected to return. Furthermore, business utilization of capital is currently estimated to be below its long-run average, suggesting less pressure to invest in additional capacity.

### Highlights of the Economic Projections

The budget relies on conservative economic assumptions that are similar to those of private forecasters, as well as CBO. Currently, the consensus among these other forecasters is that the economy is due for some moderation in growth, and over the next few quarters the growth rate could average about 2.0 percent, as the unemployment rate retreats somewhat from its current three-decade low. Eventually, however, the economy should rebound and return to rates of growth nearer to potential, estimated by mainstream forecasters at around 2.4 percent per year. The Administration believes that if the Nation maintains the sound economic policies of the past six years, with budgets in surplus for the foreseeable future, economic performance could be even better than this. Recent experience suggests that sound policy decisions are rewarded with superior economic performance. Under this Administration, the economy has consistently outperformed the consensus forecast. However, in making budget projections, experience shows that it is prudent to follow conservative assumptions.

*Real GDP:* Real GDP growth is expected to average 2.0 percent on a fourth-quarter-over-fourth-quarter basis for the next three years. It is highly unlikely that growth will be this smooth over this period, but the Administration believes that growth over the next three years will average this rate. For 2002–2007, the Administration's estimate of potential growth is 2.4 percent. Beginning in 2008, the rate of growth is expected to slow gradually as the retirement of the baby-boomers begins to cut into the growth in the labor supply.

*Unemployment:* The unemployment rate is projected to rise gradually to 5.3 percent. This is a mainstream estimate of the threshold level below which inflation would be expected to accelerate. Once the unemployment rate reaches this level, it is expected to stabilize there.

*Inflation:* After rising by 1.6 percent in 1998, the CPI is expected to pick up at a rate of 2.3 percent in 1999, and to maintain this rate for the rest of the projection period. Special factors have been holding down consumer price inflation recently, including falling prices for oil and other imported goods. The world economic crisis has reduced prices in world markets which has redounded to the benefit of American consumers, and American businesses that use foreign goods and services as inputs. The chain-weighted price index for GDP is also expected to increase somewhat faster than 1998's low rate. After rising 0.9 percent in 1998, it is projected to increase 1.9 percent in 1999, and 2.1 percent in 2000 and thereafter.

*Interest Rates:* Interest rates on Treasury debt last year fell to extremely low levels, under five percent, due to the financial crisis. As financial markets stabilize, and as special factors reducing inflation dissipate, interest rates should increase somewhat. In the Administration projections, the 91-day Treasury bill rate is 4.2 percent next year, and it rises to 4.4 percent by 2002 and thereafter. The yield on 10-year notes is projected to rise gradually from 4.9 percent next year to 5.4 percent in 2003 and afterwards.

The medium-term projections shown in Table 1–1 are intended to represent average behavior for the economy, not a precise year-to-year forecast. In some years, growth could be faster than assumed; in other years, it could be slower. Similarly, inflation, unemployment, and interest rates could fluctuate around the values assumed. But the assumptions are expected to hold on average, and thus to provide a prudent basis for projecting the budget.

**Table 1-1. ECONOMIC ASSUMPTIONS <sup>1</sup>**

(Calendar years; dollar amounts in billions)

	Actual 1997	Projections						
		1998	1999	2000	2001	2002	2003	2004
<b>Gross Domestic Product (GDP):</b>								
Levels, dollar amounts in billions:								
Current dollars .....	8,111	8,497	8,833	9,199	9,582	10,004	10,456	10,930
Real, chained (1992) dollars .....	7,270	7,539	7,717	7,872	8,029	8,208	8,404	8,606
Chained price index (1992 = 100), annual average .....	111.6	112.7	114.4	116.8	119.3	121.8	124.4	127.0
Percent change, fourth quarter over fourth quarter:								
Current dollars .....	5.6	4.5	4.0	4.2	4.1	4.5	4.5	4.5
Real, chained (1992) dollars .....	3.8	3.5	2.0	2.0	2.0	2.4	2.4	2.4
Chained price index (1992 = 100) .....	1.7	0.9	1.9	2.1	2.1	2.1	2.1	2.1
Percent change, year over year:								
Current dollars .....	5.9	4.8	4.0	4.1	4.2	4.4	4.5	4.5
Real, chained (1992) dollars .....	3.9	3.7	2.4	2.0	2.0	2.2	2.4	2.4
Chained price index (1992 = 100) .....	1.9	1.0	1.5	2.1	2.1	2.1	2.1	2.1
<b>Incomes, billions of current dollars:</b>								
Corporate profits before tax .....	734	721	724	739	765	787	826	867
Wages and salaries .....	3,890	4,146	4,349	4,526	4,701	4,892	5,106	5,331
Other taxable income <sup>2</sup> .....	1,717	1,763	1,815	1,863	1,921	1,980	2,051	2,126
<b>Consumer Price Index (all urban):<sup>3</sup></b>								
Level (1982-84 = 100), annual average .....	160.6	163.1	166.7	170.6	174.5	178.5	182.6	186.8
Percent change, fourth quarter over fourth quarter .....	1.9	1.6	2.3	2.3	2.3	2.3	2.3	2.3
Percent change, year over year .....	2.3	1.6	2.2	2.3	2.3	2.3	2.3	2.3
<b>Unemployment rate, civilian, percent:</b>								
Fourth quarter level .....	4.7	4.6	4.9	5.1	5.3	5.3	5.3	5.3
Annual average .....	5.0	4.6	4.8	5.0	5.3	5.3	5.3	5.3
<b>Federal pay raises, January, percent:</b>								
Military <sup>4</sup> .....	3.0	2.8	3.6	4.4	3.9	3.9	3.9	3.9
Civilian <sup>5</sup> .....	3.0	2.8	3.6	4.4	3.9	3.9	3.9	3.9
<b>Interest rates, percent:</b>								
91-day Treasury bills <sup>6</sup> .....	5.1	4.8	4.2	4.3	4.3	4.4	4.4	4.4
10-year Treasury notes .....	6.4	5.3	4.9	5.0	5.2	5.3	5.4	5.4

<sup>1</sup> Based on information available as of early December 1998.<sup>2</sup> Rent, interest, dividend and proprietor's components of personal income.<sup>3</sup> Seasonally adjusted CPI for all urban consumers. Two versions of the CPI are now published. The index shown here is that currently used, as required by law, in calculating automatic adjustments to individual income tax brackets. Projections reflect scheduled changes in methodology.<sup>4</sup> Beginning with the 1999 increase, percentages apply to basic pay only; adjustments for housing and subsistence allowances will be determined by the Secretary of Defense.<sup>5</sup> Overall average increase, including locality pay adjustments.<sup>6</sup> Average rate (bank discount basis) on new issues within period.

### The Near-Term Budget Outlook

The Administration projects that the budget surplus first achieved in 1998 will continue in 1999 and subsequent years. With no change in policy, the surplus should reach \$79.3 billion dollars in 1999 and \$117.3 billion dollars in 2000. All economic projections contain uncertainty, and this is true for budget projections as well. The further into the future the projections go, the more uncertain they are.

### The Long-Term Budget Outlook

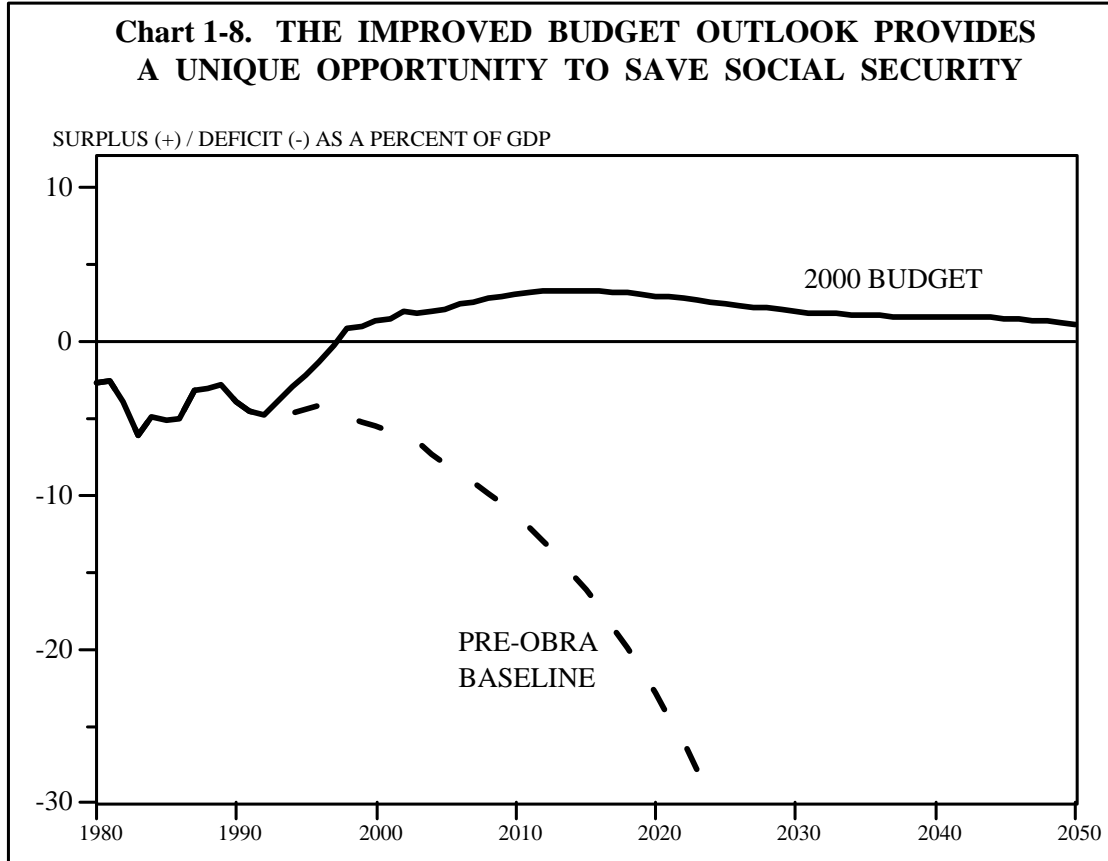
For many years, it was traditional to make budget projections for a total of five years—the budget year and the four beyond. In recent years, however, attention has focused on intervals of 10 years and even longer, especially when it is necessary to consider longer-term issues involving the aging of the population, like Social Security. Because the problems with that system will not even begin to appear until 2008, toward the close

of the current 10-year budget window, the projections must be pushed out many decades into the future to examine the full problem.

The unexpectedly swift success in reducing the budget deficit since the passage of OBRA in 1993 also bodes well for our long-run projections. Without the changes enacted in OBRA, the Federal deficit would have continued to spiral out of control, reaching over 30 percent of GDP shortly after 2020. Projections in the 1997 Budget estimated a budget surplus for 2002, which was projected to last for about 20 years. However, the current long-run projection of the budget shows the surplus could continue for many years to come. Reform of Social Security is one of the most important challenges remaining to safeguard our hard won fiscal stability over time. In that context, maintaining fiscal discipline and using resources for strategic investments must be balanced.

The beneficial long-term results of these projections depend on prudent policy and on avoiding sustained adverse economic shocks. Permanent economic or technical shocks could knock the projections off track. However, ordinary business cycles should not affect the projections over the long run. In a typical cycle, a slowdown is preceded and followed by more rapid growth, and the budget regains in the rebound what it lost in the slowdown. (For more details on the long-run budget projections see *Analytical Perspectives*, Chapter 2, "Stewardship.")

Thanks to the policy initiatives taken by the Clinton Administration and the BBA, the budget provides a firm foundation to reform Social Security and put it on a solid long-term basis. Restoring confidence in this vital program is a key Administration priority. The long-term budget outlook summarized here offers the opportunity to get the job done.



### **Investing in Federal Statistics**

Our democracy and economy demand that public and private leaders have unbiased, relevant, accurate, and timely information on which to base their decisions. Data on real Gross Domestic Product, the Consumer Price Index, and the trade deficit, for example, are critical inputs to monetary, fiscal, trade, and regulatory policy. They also have a major impact on government spending, budget projections, and the allocation of Federal funds. Taken together, statistics produced by the Federal Government on demographic, economic, and social conditions and trends are essential to inform decisions that are made by virtually every organization and household.

Despite these critical uses, rapid changes in our economy and society, and funding levels that do not enable statistical agencies to keep pace with them, can threaten the relevance and accuracy of our Nation's key statistics. Without improvements proposed in this budget, it will become more difficult for our statistical system to mirror accurately our economy and society, which, in turn, could undermine core government activities, such as the accurate allocation of scarce Federal funds. Fortunately, the most serious shortcomings of our statistical infrastructure could be substantially mitigated by proposals set forth in the Administration's budget. These initiatives are documented in greater detail in Chapter 11 of *Analytical Perspectives*, "Strengthening Federal Statistics."